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DIRECTORATE OF  
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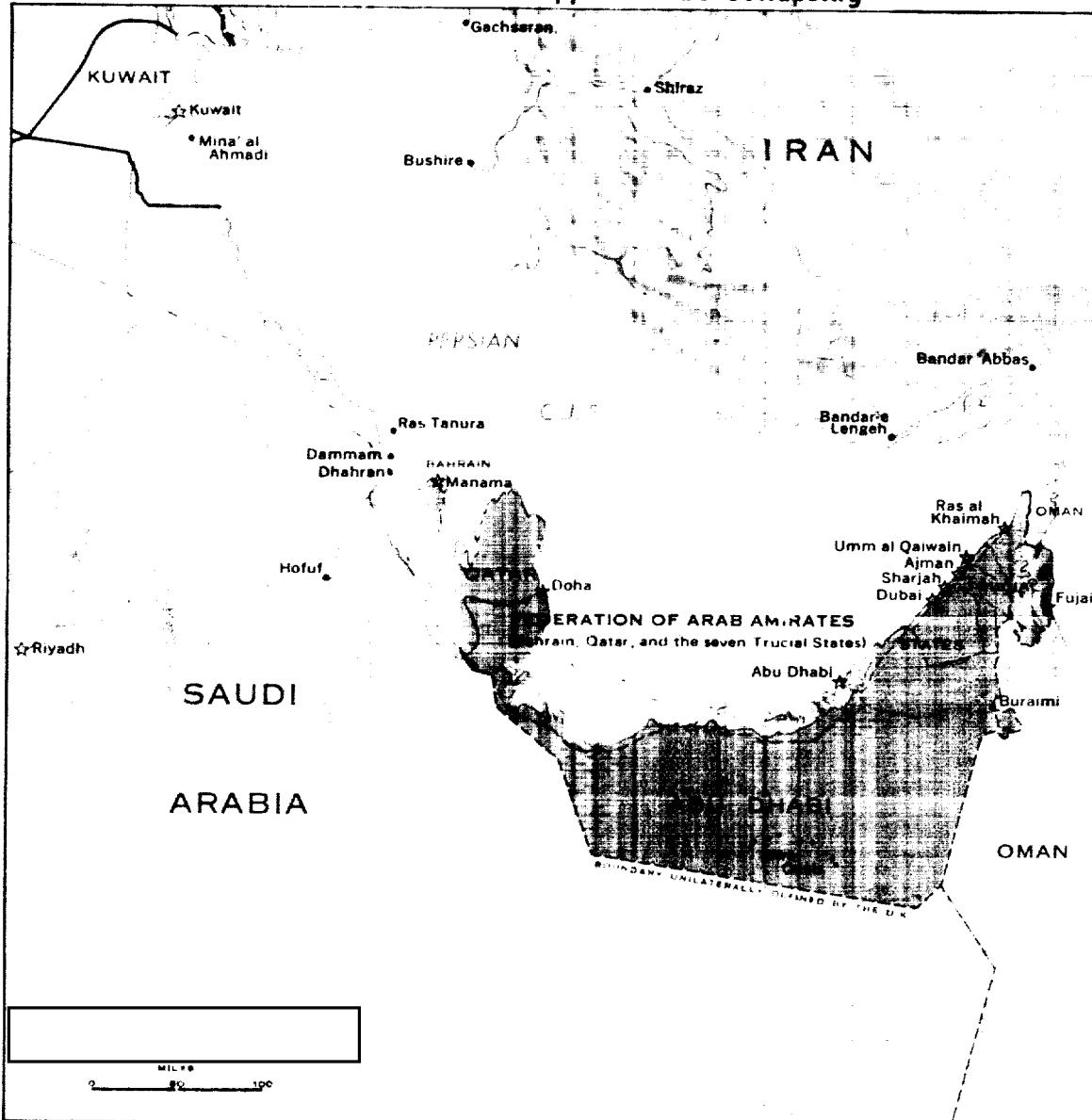
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## Talks on Federation of Arab Emirates Appear to be Collapsing



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PERSIAN GULF: Talks looking toward the formation of a nine-member Federation of Arab Emirates appear to be collapsing.

The deputy rulers of the nine sheikhdoms failed to agree Monday on representation in the proposed federation's parliament. Populous Bahrain demanded representation proportionate to the population of each federation member. The smaller Trucial States, fearful of being submerged in a federation, supported the concept of equal representation. [redacted]

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Numerous conflicts have marred consideration of the British-sponsored plan to create the federation. With the nine-member federation now a receding prospect, talks among the smaller sheikhdoms about a confederation of their own are likely to begin. Rivalry among the rulers is too intense, however, to allow a quick settlement of differences. The possibility that the British may decide not to withdraw all their forces from the Persian Gulf by the end of 1971 has lessened the need for a federation in the eyes of the rulers of the Trucial States.

Saudi Arabian leaders, however, who had viewed the creation of a federation as a deterrent to subversion in the gulf, will be disappointed by the apparent collapse of the talks. [redacted]

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UNITED KINGDOM: The government's recent fiscal policy announcement gives further evidence of the Conservative Party's resolve to reduce the role of government in the economy.

Planned expenditure cuts and increased charges for government services should reduce spending by almost \$800 million for the fiscal year beginning next April and slow the long-run rate of increase of public spending to 2.8 percent a year. Because of the complexity of the fiscal measures, however, their over-all impact on the economy for the short run cannot yet be reliably estimated.

Particularly important fiscal changes will affect corporate and personal income taxes, charges for government services, and the prices of agricultural commodities. Corporations will lose the system of investment grants, but will gain a lower basic tax rate and more favorable depreciation allowances for taxes due on 1 January 1971. Individuals will benefit from an April 1971 reduction in the standard rate of the personal income tax, but will have to pay more for such government services as medical and dental assistance as well as for some foods.

The anticipated increase in food prices results from a fundamental change in the nature of the British foreign support program. This change aligns the methods of British agricultural support with those of the European Communities, thus making it an important first step in effecting the difficult British transition to the Common Agricultural Policy. It could give a boost to the negotiations on this issue.

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LAOS: The Communists have renewed their bid to open peace talks.

The chief negotiator for the Pathet Lao, Phoun Sipraseuth, has sent a telegram to Pheng Phongsavan, Prime Minister Souvanna's representative for the talks, calling for the "earliest possible meeting." The message, which came a few days before Souvanna's return to Laos, stated that Pathet Lao special envoy Souk Vongsak would return to the capital to "prepare concrete questions" for the meeting.

The Communist initiative sticks to the line that the proposed discussions would be between the representatives of the "two princes"--Souvanna and Pathet Lao leader Souphanouvong. Vientiane has opposed this formulation because it failed to recognize Souvanna's position as head of the Laotian Government. It is possible, however, that both sides are now prepared to sidestep on this question--perhaps by each holding to its own while ignoring the other's position.

Government leaders are optimistic about the chances that substantive talks will get under way; some believe they may even lead to a settlement. Pheng Phongsavan has told a US official that an agreement to meet would be reached and that talks might begin at Khang Khay in early December. The crucial question remains that of a bombing halt, which the Communists have been insisting is essential to any settlement. Pheng indicated that the government would continue to insist that no cessation could occur without a supervised withdrawal of North Vietnamese forces. He thought, however, that the Communists would be willing to discuss a partial bombing halt in return for some reduction of hostilities in northern Laos.

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JAPAN: The lowering of the official discount rate reflects Tokyo's decision to relax its 14-month-long tight credit policy.

The adverse effect of restrictive monetary policy on industrial output has recently become apparent. Growth in steel and in a number of other important industries has slowed appreciably. Inventories of construction machinery, home electric appliances, and synthetic fibers are up sharply, leading to expectations of production cutbacks. Moreover, there has been a decline in shipments of key commodities such as automobiles and television sets, new orders for construction and machinery, and overtime work in manufacturing.

Tokyo probably only reluctantly eased its credit policy, because its primary aim to slow inflation has not yet been achieved. Both wholesale and consumer prices have continued to increase in recent months, maintaining the upward trend that has persisted for two years.

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CHILE: Salvador Allende's extremist Socialist Party appears to have gained the upper hand in the maneuvering over allocation of cabinet posts.

The Socialists, many of whom prefer the Cuban revolutionary path to the Soviet via pacifica, still insist on having one of their members appointed minister of interior, which is the senior cabinet position. The minister of interior has control over the police and provincial governments, and is first in line of succession to the presidency. If, as expected, a Castro admirer is appointed foreign minister, this will also give a more radical cast to the new administration than either Allende or the cautious Communist Party had intended, at least in the beginning. The Communists, the major component of Allende's six-member Popular Unity coalition, reportedly are dissatisfied over the Socialists' grab for power in the cabinet and for lesser, but important posts.

The investigation of the assassination of Army Commander in Chief Rene Schneider has somewhat obscured Allende's difficulties in setting up his government. Administration officials announced the arrest of all those involved in the attack, and retired General Roberto Viaux has surrendered to "prove his innocence." [redacted]

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URUGUAY: The Tupamaros are continuing their terrorist activities.

This week the guerrillas bombed the British-owned Western Telegraph facilities, causing substantial damage. On 13 October, a US-associated company suffered \$250,000 in damages in a firebombing similar to the hit-and-run attacks on several US firms in September. Although the Tupamaros still have the capability for spectacular operations, most of their activities this month seem to be aimed simply at demonstrating their freedom of action and at keeping themselves in the public eye.

The Tupamaros have taken over several theaters in Montevideo for short periods of time in order to publicize and distribute their political manifesto, which they demand be published by all news media in exchange for the release of one of the two kidnap victims held since early August. In an effort to keep pressure on the government, which steadfastly refuses to negotiate with the terrorists, the Tupamaros this week released pictures of the American agronomist, Claude Fly, who apparently is in good health.

In an attempt to intimidate prominent Uruguayans, the Tupamaros have vandalized the homes of several leading families, most of whom are associated with the media. Last week the editor of a major newspaper was abducted, beaten, and left in a vacant lot.

The police, meanwhile, have continued their counterterrorist campaign. Three Tupamaros were captured and one killed during a shootout with police on Tuesday, and earlier this month eight members of a second terrorist group were arrested. The government now holds more than 200 Tupamaros in prison. [redacted]

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JORDAN: The appointment yesterday of former premier Wasfi Tal to head a new cabinet reflects King Husayn's concern with strengthening domestic policy. Tal is a strong, tough-minded leader with considerable support within the army and among the East Bank Jordanians; he is generally unpopular in the radical Arab states. Following the death of Nasir--whose strong moderating influence was valuable to Husayn in his dealings with the fedayeen--the King has given a high priority to strengthening Jordan's stability, especially with relation to the Palestinians. Husayn had already restored his tough cousin, Zaid bin Shakir, to his position in the army; the new premier's appointment probably reflects the King's desire to give Shakir a strong civilian partner.

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LEBANON-FEDAYEEN: Increased commando activity along the Israeli border could again spark government-fedayeen clashes. Following a short period of quiet, commandos have made four attacks across the border into Israel since the beginning of this week. On direct orders from President Franjiyah the Lebanese Army has increased its forces in the area; the fedayeen may soon follow suit. In the event that commando activity reaches a high level, Tel Aviv could launch strong retaliatory strikes again. Meanwhile, fedayeen organizations may be making contingency plans for fighting in Beirut.

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BULGARIA: The delayed tenth Communist Party Congress has been announced for April 1971, a month later than the scheduled start of the Soviet congress. According to Bulgarian leader Zhivkov, the agenda will include the endorsement of the draft constitution under discussion since 1968 and the approval of the first long-term party program, as well as a 1971-75 socioeconomic plan. Details are lacking, but the constitution reportedly is intended to codify changes that have been made in Bulgaria since the current document was adopted in 1947. It probably is also designed to support the proposed five-year plan which, according to Zhivkov, for the first time will rely heavily on automation and cybernetics to determine planning priorities.

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**C** ECUADOR: The government, apparently with no clue to the identity of the kidnapers of General Rohon, is continuing strict security measures and a roundup of political opponents. As time passes without any authenticated communiqué stating the kidnappers' terms, the possibility that Rohon has been killed increases, as does the possibility that the government will feel compelled to take harsher retaliatory action against suspected terrorists. The reported bombing yesterday of the home of leftist Vice President Zavala, ousted when Velasco assumed dictatorial powers in June, will probably prompt speculation that the military is already embarked on an extralegal course. [redacted]

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